

Shipping and handling charges separately contracted for and not included in the selling price are not considered in the computation of the sales tax liability. Mail order shipping and handling charges are separately agreed upon service charges so long as the mail order form requires a separate charge for the shipping and handling charges and the charges are reflective of the actual cost of the shipping and handling. See 86 Ill. Admin. Code 130.415. (This is a GIL).

July 28, 2000

Dear Xxxxx:

This is in response to your letter dated April 20, 2000. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120 subsections (b) and (c), which can be found at <http://www.revenue.state.il.us/legalinformation/regs/part1200>.

In your letter, you have stated and made inquiry as follows:

Please find enclosed a letter from BUSINESS, in response to my questioning the amount of tax applied to an item which I purchased. The item was taxed at 8.25%. The item was purchases in the state of Illinois by a resident and mailed to my Illinois address.

The sales tax in my general area is 6.25% tax.

It is hard to believe that the sales tax in CITY, IL, is a whopping 8.25%. Who would do business in that area at that rate of tax, and who would buy anything in CITY knowing that they would have to pay 8.25% tax for the privilege of spending their hard earned cash in CITY, Illinois.

As you will note in the letter from BUSINESS, it does not state that 8.25% tax on sales is common in CITY, IL. It states that the State of Illinois has modified the method of how sales tax is assessed.

I file a state sales tax form on a monthly basis, and have not been advised of this "modified method of assessing sales tax". I realize that tax rates vary according to area, and you the customer are subject to the rate set at the site of the supplier. Also in question is what amount of "handling", which BUSINESS taxes at 8.25% would be considered legitimate and what would be considered just scamming the customer?

July 28, 2000

I would be very appreciative, if you could relay this request for information to the proper individuals, if this is not in your general area of expertise. Thank you very much for any information you can provide me.

RESPONSE

As you properly stated in your letter, the sales tax rate imposed can vary from area to area. The state sales tax rate is 6.25%, but the imposition of local taxes will increase the rate applied to a sale at retail. Additionally, the applicable sales tax rate will also vary where certain statutory exemptions apply to the sale of tangible personal property, thereby reducing the state sales tax rate. Applicable local taxes are imposed in addition to the state sales tax rate when the "selling" occurs in the jurisdiction imposing the local taxes. The Department of Revenue is of the opinion that the most important factor in the occupation of selling is acceptance of the purchase order. This being the case, if the location in which the seller accepted the purchase order imposes local taxes, then such taxes are properly incurred. See 86 Ill. Admin. Code Section 270.115, enclosed for your reference.

Since the sales tax rate is fixed by the location of the seller, the sales tax rate applicable to the sale you referenced in your letter would be the state sales tax rate plus local taxes incurred in CITY, Illinois, the location of the seller. This is assuming no exemptions apply since the specific item of tangible personal property sold in the transaction was not disclosed in your letter. The current sales tax rate in CITY is 8.50%. This rate comprises of the state sales tax rate of 6.25%, plus the COUNTY Home Rule sales tax rate of 0.75%, the Regional Transportation Authority (RTA) sales tax rate of 0.75% applicable to Cook County, and the CITY Home Rule sales tax rate of 0.75%. Effective January 1, 2000, the CITY Home Rule sales tax rate increased from 0.5% to 0.75%. See Informational Bulletin FY 2000-9, enclosed.

In regards to your question concerning the taxation of "handling" charges, transportation or delivery charges, otherwise known as shipping and handling charges, included in the retailer's selling price are an element of the cost of doing business, regardless of separate itemization or billing of the charges. Such costs are, therefore, not deducted from the retailer's gross receipts when computing the applicable sales tax. See 86 Ill. Admin. Code Section 130.415, enclosed. If, however, the shipping and handling charges are not included in the selling price of the item sold but are separately contracted for service charges, then the shipping and handling charges are not considered in the computation of the sales tax liability. See Section 130.415(c). Mail order shipping and handling charges are deemed separately agreed upon service charges so long as the mail order form requires a separate charge for the shipping and handling charges, and the shipping and handling charges are reflective of the actual shipping and handling costs. To the extent such charges exceed the actual costs of shipping and handling, the charges are subject to the applicable sales tax rate. See Section 130.415(d).

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I hope this information is helpful. The Department of Revenue maintains a website, which can be accessed at www.revenue.state.il.us. If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

With Regards,

Dana Deen Kinion
Associate Counsel

DDK:msk

Enc.